Department of Energy
Washington, DC 20585

September 5, 2008

MEMORANDUM FOR DISTRIBUTION

FROM: ROBERT M. MYERS
DIRECTOR
CONTRACT HUMAN RESOURCE MANAGEMNT DIVISION

SUBJECT: Approval Procedures for Fiscal Year 2009 Contractor Compensation Increase Plans

This memorandum provides guidance for analysis of Fiscal Year (FY) 2009 Contractor Compensation Increase Plan (CIP) proposals.

FAR (Subpart 31.205-6) and DEAR (Subpart 970.3102-05-6) cost principles establish as reasonable, compensation costs that are comparable to those in the labor market which contractors compete for employees. Total compensation (i.e., direct pay and benefits) must be considered in determining market position. The contractor benefit value index and an analysis of the contractor's employee benefit costs are the recommended method to determine market comparability of benefits.

Contracting Officer (CO) approval of contractor CIPs for FY 2009 requires adherence to contract terms and conditions, DOE Order 350.1, Chapter IV, Compensation, and Acquisition Guide Chapter 70, Contractor Compensation-Variable Pay. The following procedures remain in effect until superseded and should be employed in the analyses of CIP proposals:

- COs' and contractors must mutually define and document in advance those employee groups (e.g., exempt, non-exempt) to be included under the CIP.
- The FY 2009 contractor operating budget should be included as a factor in the development of the proposal and in the evaluation and determination of the amount of CIP approved. The CIP must be affordable within the constraints of the contractor's operating budget. COs' should consult with the Chief Financial Officer (CFO) organizations and Program Secretarial Officers (PSOs) to validate that operating budgets beyond FY 2009, can sufficiently bear the costs of the CIP approved for FY 2009 (including consideration of whether the contractor will be required to make contributions to their defined benefit pension plan(s) and the impact of the Pension Protection Act on contractor pension plan funding over the next seven to eight years).
- CIP approvals must be justified by appropriate market data, including relevant markets, balanced comparisons, (e.g., total direct pay to market total direct pay, base pay to market base pay and value of total benefit package to average market value total of benefits)

accurate benchmarking, and reasonable sampling of surveyed positions. COs' shall consider projected market movement as forecasted by appropriate and recognized surveys. Where contractor total compensation exceeds market position, DOE approved CIPs' should be less than the projected market salary and wage movements to bring the pay rates closer to market. This would not have to occur all in one year, but the approved fund for FY 2009 should be reduced below projected market movement, yet be sufficient to address high performers who are below market rates.

- The Institute of Management and Administration's August 2008 Report on Salary Surveys reported that average pay increase budgets are projected to be 3.8% for nonexecutives.

- World at Work, a nonprofit human resource trade group reported in its 2008-2009 Annual Salary Budget Survey that the average 2008 total salary budget increase across all organizations, employee categories, regions, and industries is 3.9 percent. The following are projected employee group increases for 2009: Nonexempt Hourly Non-union – 3.8 percent; Nonexempt Salaried – 3.8 percent and Exempt Salaried – 3.9.

- COs' should expect to see modest compensation increase budgets of approximately 3.8 – 3.9 percent for non-exempt and salaried employees and 4.1 percent for executives based on anticipated market movement (excluding promotion funds which are typically 0.5 – 1.0 percent) in FY 2009. In situations where total CIP budgets exceed 4.5 percent, the CO may use the services of the DOE Human Resource Management technical support contractor, Aon Consulting, Inc. to assist in their analysis. Utilization of Aon may be coordinated with Robert Myers in the Contractor Human Resource Management Division.

- Merit, promotion, and adjustment funds should be justified, established and tracked separately. Normally, merit fund amounts which exceed the employee group's cost to market position should not be approved. While adjustment funds should provide for needed internal and external equity increases and retention pay for particular job classifications or families, **merit funds should only be used for increases based on merit**.

- Although contractors must justify merit, promotion, and adjustment funds separately, once approved, contractors may expend the total fund approved for each employee group as needed to support direct pay needs of that group.

- The DOE Acquisition Guide, Chapter 70, Contractor Compensation Variable Pay provides the criteria for DOE approval of variable pay programs.

- The absence of an approved variable pay program under the Acquisition Guide Chapter 70, does not preclude COs' from approving single-purpose allocations for variable pay, such as lump-sum performance pay and recruitment or retention bonuses. Should it be necessary to continue allocations beyond one fiscal year, the criteria of Acquisition Guide, Chapter 70, must be met.

- Allocations for variable pay requested in conjunction with the CIP must be incorporated into the overall CIP fund as either a separate item or as a subset of merit or adjustment funds, as appropriate.

- World at Work reported a continued upward trend in the use of variable compensation that is contingent on performance or results. The percentage of organizations using variable pay increased slightly from 80 percent in 2007 to 81 percent in 2008.

- The Salary-Wage Increase Expenditure Report (DOE F 3220.8) must be used to report actual expenditures under the Compensation Increase Plan by employee group and cost category (merit, promotion, adjustments, and variable pay).

The contractor Salary-Wage Increase Expenditure Report must be submitted annually to Headquarters/L'Enfant Plaza Bldg. attn: Robert Myers/MA-63. Any missing reports should be submitted to HQ as soon as possible. If you have already submitted required reports, please disregard submittal request. Should you require additional information, please contact Robert M. Myers at (202) 287-1584 or by e-mail at robert.myers@hq.doe.gov.

cc: David Boyd NA-63
Barry Smith, EM-42
John LaBarge, SC-31.3
Margo Triassi, SC-32

Distribution List:

Procurement Directors/Senior Procurement Managers:

John Greenwood, SC-CH
Pamela Thompson, PPPO
Arthur Welton, CBFO
Ralph Holland, EMCBC
Mary-Lynne C. Foreman, GFO
Michael L. Adams, IOO (NE-ID)
Judith S. Wilson, OROO
Dale Siciliano, NETL
Reggie R. James, OCRWM
Michael K. Barrett, RL-ORP
Ronnie L. Dawson, RL-ROO
(Jeffrey) Craig Armstrong, SROO
Gary C. Landry, SPRO
Donald J. Garcia, NNSA (NZ)

Contractor Human Resource (CHR) Specialist Team Leaders:

Matthew Brott, NR
Karen Papp, SC-CH
Lisa Carter, OROO
Barbara Powers-Hargreaves, EMCBC
Dale Carpenter, KAPL
Joyce Gilbert, RL (ORP, ROO)
Samuel Wyse, SROO
Dick O'Neill, SPRO
Cheryl Abernathy, RW
Elizabeth Stover, GO
Francisco Sanchez, NNSA (NZ)